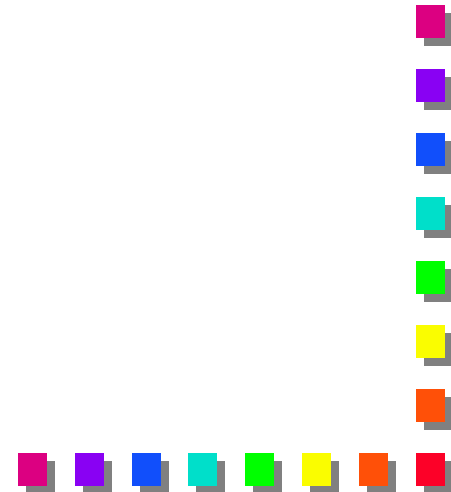


To Segment or Not: the Challenges of US-International Ethnic O/D Markets

presentation to
FAA Forecast Conference

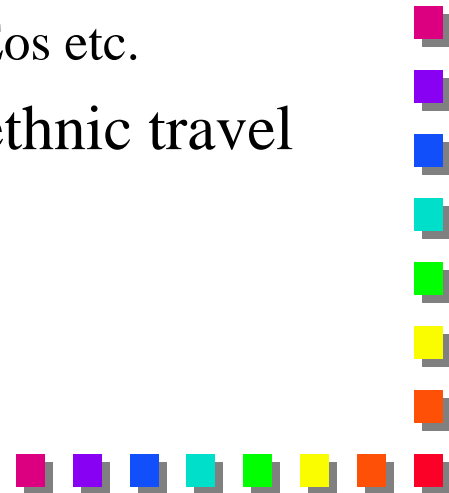
Washington DC
March 16, 2007

Craig Jenks Ph. D.
President



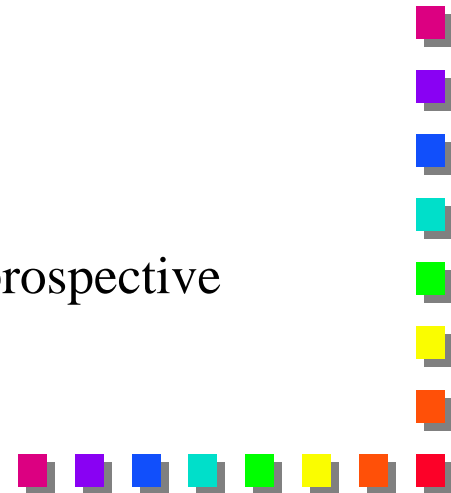
To segment or not...

- underlying question: when/how to segment a business?
 - adds complexity
 - does it add more revenue than it does complexity-induced cost?
- state-of-the-art airline practice is to *not* segment pax. types
 - segmentation is primarily by price through yield management: any other complexity seen as superfluous distraction
 - concept of leisure versus business traveler largely outmoded
 - exceptions: [1] United [2] EU charters [3] Maxjet, Eos etc.
- state-of-the-art therefore tends to *not* segment ethnic travel
- press perspectives



Ethnic Travel

- large numbers of post-1965 migrants/families
 - already high
 - growing fast
- distinctive travel characteristics
 - not same as traditional VFR
 - new challenges for carriers
- this presentation...
 - AAP Inc. work in progress
 - 3-fold perspective on segmentation:
[1] analytical [2] how carriers *now* segment/not [3] prospective



Post-1965 versus traditional migrants

- legislation in 1965 substantially liberalized migration
 - removed quota system favoring Europeans
 - allowed total migration to increase to 800,000+ per year
- Hispanic & Asian migration as main beneficiaries
 - extended families [vs. traditional nuclear family migrants]
 - dual citizenship [culturally and legally e.g. India and DR]
- ambitious, socially mobile, with often impressive
 - income: steadily increasing
 - education: 50% of Asian-Americans have a B.A. degree
 - entrepreneurial propensity: 23% venture-backed companies started by immigrants [Business Week]

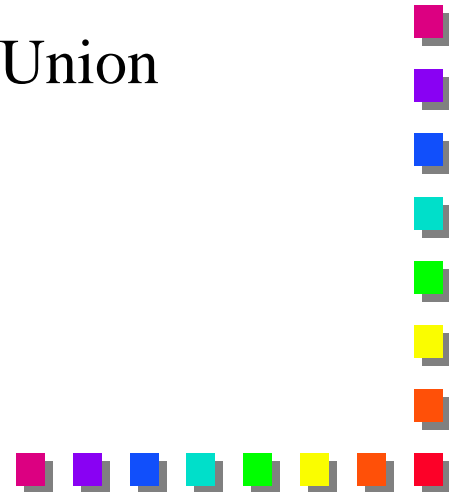
10 largest recent migrant flows

Latin/Carib.	2006 total [million est.]	Asian	2006 total [million est.]
Mexican	27.2	Chinese PRC	3.02
Cuban	1.50	Indian	2.37
Salvadoran	1.26	Filipino	2.27
Dominican	1.1-1.3	Vietnamese	1.36
Jamaican	.89	Korean	1.35

- based on US census ACS 2004 + annual growth, estimated at:
4% Asian **2.7%** Latin/Carib. versus **1.1%** all US
- many other large flows: CIS, E. Europe, Africa, MidEast etc.

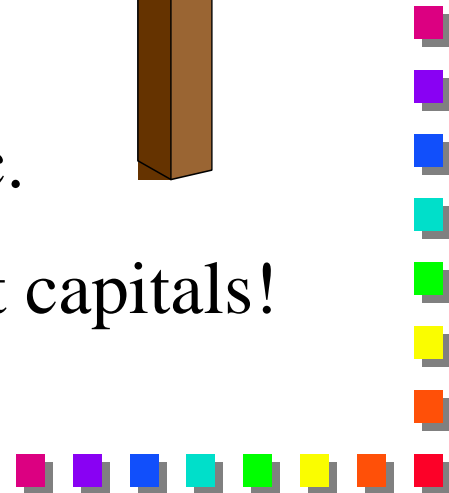
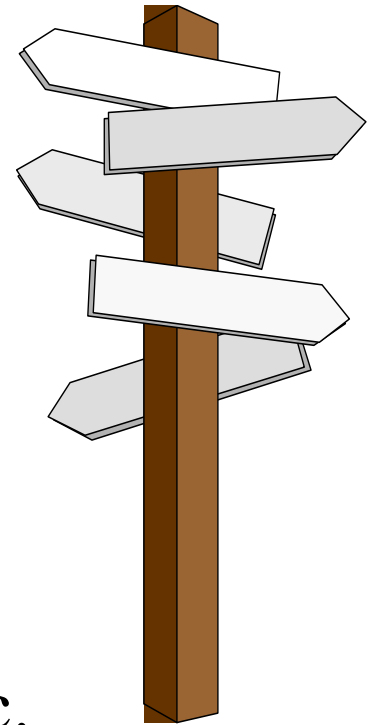
Data issues

- census intervals are too long
- prime focus is on foreign-born, with only selective focus on US-born [even for recent migrants]
- mixed descent category
- total lack of information on where migrant came from within huge countries like China, India, Soviet Union
- the science or art of projecting growth rates.



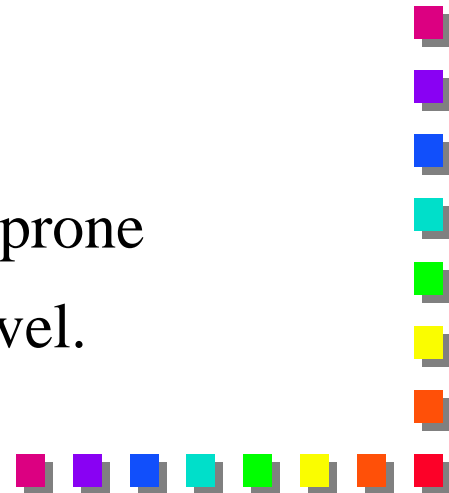
Ethnic travel attributes summarized...

- High travel propensity
- Distribution: traditional
- Baggage: voluminous
- Transit visa issues
- Seasonality
- Ethnic-specific pax. needs: IFE, food etc.
- Coming from/returning to provinces, not capitals!



High travel propensity

- continued strong linkage with country of origin
 - extended families
 - dual citizenship [culturally and legally]
 - impact of electronic “staying in touch” vs. occasional letters
 - ethnic entrepreneurs, leveraging links with country of origin
- travel *increases* with increased affordability
 - migrant income growth is above US average
 - compare traditional migrants off a ship!
- what trendwatching.com calls *home trotting*
- demand relatively *inelastic* vs. recession/crisis-prone tourism yet *voluminous* vs. regular business travel.



High travel propensity [cont.]

Ethnic entrepreneur linkage

Crain's New York Business, June 12 2006

Prospering Chinese head home

Immigrants plow fortunes made in NY back into huge market

Examples of start-ups back in China by NY-based Chinese entrepreneurs:

- a Yangtze river cruise line
- retail lighting company
- flooring company using feng shui
- billboard advertising company
- real estate investor.



Airline/Aircraft Projects

Distribution

- ethnic travel agents
 - still very heavily used: not obsolete
 - payment often in cash [even JetBlue]
- ethnically tailored web-sites
 - AA's new 18 nation-specific Spanish language sites
 - Lufthansa's dedicated site for 20 ethnic destinations

WeFlyHome.comSM



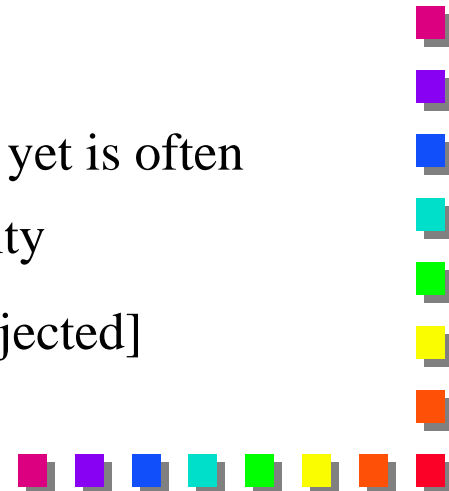
- airlines do cater to ethnic mkt. distribution needs



Baggage



- excess baggage
 - migrants typically return with gifts for their extended family
 - this is true for every recent migrant group in the US, whether Asian, LATAM, African, CIS, East Europe etc.
 - *vital* like the travel itself, comparable to currency remittances
- impact on carriers...
 - large excess revenue potential for carriers
 - less than widebody capacity is often inadequate, and yet is often involved as designated, reliever or connecting capacity
 - varying carrier solutions [ethnic excess bags often rejected]



Baggage [cont.]

defying the needs of ethnic passenger extended families...

Ft. Worth, TX June 6 2006- Summer is fast approaching, and American Airlines founding member of the **oneworld**® alliance and its affiliate American Eagle, remind passengers about the box and bag embargo, on certain flights June 10-August 13 [*source: AA press release*]

JetBlue allows 2 bags [up to 50 lbs. and 62 inches in sum of dimensions] free of charge for each customer flying to the DR. Sorry, boxes and excess/overweight bags are not accepted [*source: JetBlue.com*]



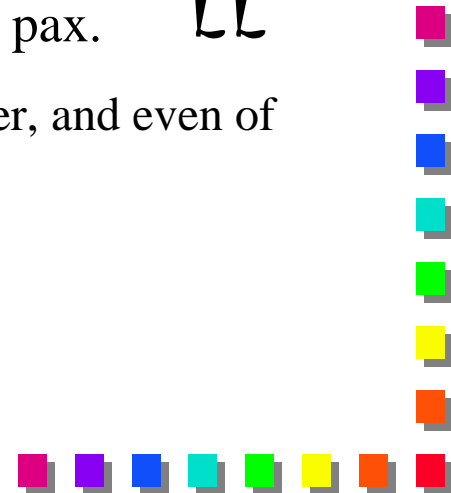
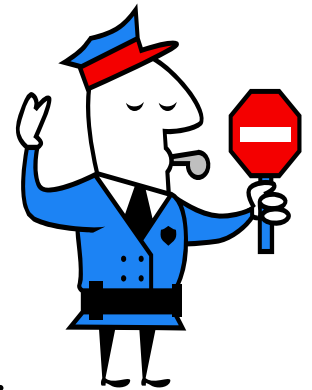
Seasonality

- ethnic market preferences
 - seasonality
 - time of day
- somewhat like other peaking, but also distinctive...
 - distinctive national and/or religious holidays
 - weather at destination



Transit visa issues

- EU requires certain pax. to obtain transit visa before trip
 - even if the transit does not require entering the country
 - cost can be as high as \$100
- difficult to ascertain where/when visa needed
 - varies by nationality, airport and trip
 - impacts certain % of Asian, African, CIS connecting pax.
 - horror stories of being refused travel at initial travel counter, and even of being forced to fly back to origin at the EU transit airport.



Distinctive needs [language, food, IFE]

- uncomfortably long flights can be alleviated for ethnic pax.
[somewhat akin to offering business passenger amenities]
- global mobility increases... so do ethnically specific needs
 - language
 - food
 - in-flight entertainment
- airlines do to some extent cater to these needs
- but they often fall short
 - no allowance for **important regional variations** [e.g. intra-India]
 - less attention to ethnic needs than evident in other industries



Migrants usually not from capitals!

- migration to the US is normally from provinces
 - normally driven by regional imbalance *within* the origin country
 - migrants quit provinces for new life in *either* the capital *or* the US

- travel demand to/from US is from these provinces

Fuzhou

Hyderabad

Krakow

Palermo

Porto

Guadalajara

- connecting airline service via capital city often unappealing
 - in many cases, the inbound flag carrier has no good solution
 - in some cases, it offers services bypassing the capital.



Volume?

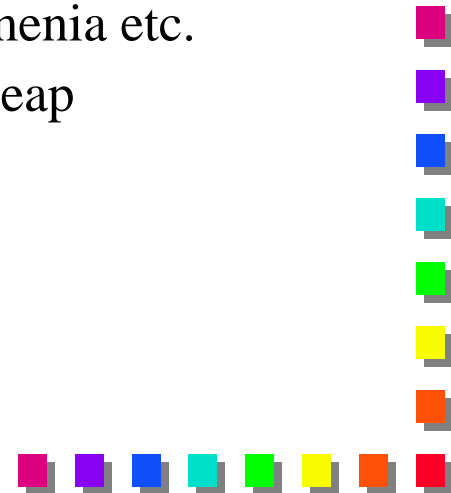
- mostly not segmented and so not measured!
- some indications from US Office of Travel & Tourism Industries [based on 2004 survey]
- of US outbound overseas pax.
 - 37% did not stay in a hotel at the destination
 - 33% paid for their travel in cash [average \$1405]
- much smaller % of the inbound traffic is ethnic
- 25% + of all US-int'l overseas traffic is ethnic



Yield?



- *should* be higher
 - destination-inelastic
 - entrepreneurial linkage component
 - higher price inelasticity than VFR: non-discretionary trip!
- anecdotal confirmation of high yields
- random confirmation of high yields
 - Expedia for Philippines, India, Nigeria, Guyana, Armenia etc.
 - LH weflyyouhome.com “special deals” are not so cheap
- CRS MIDT actual US-international yield data
 - India-US yield in 2004 was 11.84 cents
 - high yields in certain US-Caribbean markets



back to Africa and East Europe...

- from demise of Pan Am and Delta's subsequent closure of its FRA hub, no US carrier service to
 - anywhere in East Europe [except Moscow]
 - anywhere in Africa [except DL very briefly Cairo]
- in 2006 and 2007, Delta will have entered
 - Kiev Bucharest Budapest Prague
 - Dakar Jo'burg Accra Lagos

Accra & Lagos also entered by North American

Asia-US non-stops: aircraft dimension

- new Boeing & Airbus types capable of 15-18 hr. ops.
- passenger advantages
 - substantial time savings: average 3-4 hrs.
 - for India mkts, better timing & avoid EU
- new ICAO transpolar tracks
- carriers with non-stops will gain market share
 - competition between US carriers and versus foreign entrants
 - competition from increased 1-stop options



India non-stop: emerging great game!

- 4.3 million pax. in 2005
- growing at 20% per annum
- US/India Open Skies agreed 2005
- Indians in US gravitate back to region
 - HYD, BLR, MAA, ATQ, AMD
 - much more than to BOM & DEL!
- if by early 2011 **50%** of pax. are carried on 260-seat non-stops, then about 19 daily non-stops will operate



Orders relevant to India non-stop

	777-200LR/300ER	787-8/9	A340-500
Continental		20	
Delta	5		
Northwest		18	
Air-India	23	27	
Jet Airways	10	10	
Air Canada	18	14	
Kingfisher			5



Ultra-long haul Asia non-stops

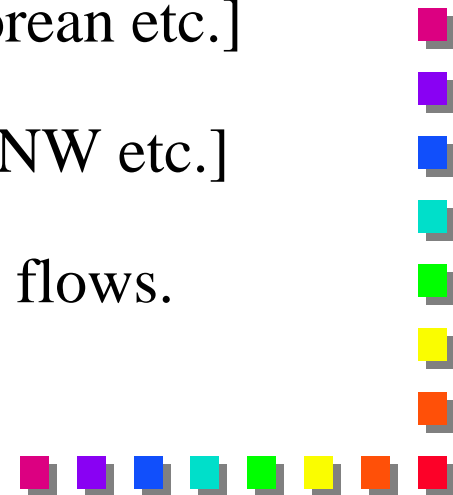
US/Canada-Asia non-stops 7250+ miles [excludes discontinued]

From	To	Carrier	Launch	Miles	Block time outbound/return	Type
Newark	Hong Kong	CO	June 2001	8065	16:00 15:45	B777-200
LAX	Singapore	SQ	Feb. 2004	8770	18:30 15:00	A340-500
Newark	Singapore	SQ	June 2004	9537	18:10 18:00	A340-500
JFK	Hong Kong	CX	July 2004	8072	16:20 15:50	A340-600
Toronto	Hong Kong	AC	Aug. 2004	7810	15:50 15:10	A340-500
Newark	Delhi	CO	Nov. 2005	7324	13:55 15:50	B777-200
Chicago	Delhi	AA	Nov. 2005	7484	14:35 15:35	B777-200
JFK	Shanghai	MU	Nov. 2006	7392	15:20 14:15	A340-600
JFK	Mumbai	DL	Nov. 2006	7799	15:30 16:25	B777-200
IAH	Dubai	EK	Dec. 2007	8168	15:10 17:05	B777-LR
Atlanta	Shanghai	DL	tentative	7659	TBD TBD	B777-LR
JFK	Mumbai	AI	TBD	7799	15:30 16:25	B777-LR
Newark	Mumbai	CO	Nov. 2007	7799	15:30 16:25	B777-200



787 orders: what % for ethnic markets?

- 366 B787s have been sold to specified airline customers
- 70 units will go to 7 carriers whose traffic will be at least 90% ethnic [Air-India, Ethiopian, RAM, Vietnam etc.]
- another 73 units will go to 8 carriers whose traffic will be at least 50% ethnic [Air China, Air Canada, Korean etc.]
- assume 10% ethnic on other carriers [QF, CO, NW etc.]
- = 33% of airline-specified 787s to target ethnic flows.



Thanks for your attention!

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